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Summary of the economic survey of Latin America and the Caribbean 1999

Executive summary

The international financial crisis continued to dominate economic trends in the Economic Commission for Latin America and the Caribbean (ECLAC) region for the second year in a row. A sharp decrease in capital inflows, together with the high volume of interest and dividend payments abroad, meant that net resource transfers to the region were negative for the first time since 1990. At the same time, low commodity prices (except in the case of oil), in combination with the downturn in intraregional trade experienced by the South American countries, led to a decline in export earnings for many countries. Thus, despite the best efforts of policy makers to deal with the adverse external scenario, regional growth stagnated in 1999 (0.3 per cent) and per capita gross domestic product (GDP) declined (-1.3 per cent).

This regional average, however, masks sharp differences across countries. Mexico and much of Central America and the Caribbean — which have close links with the booming United States economy through *maquila* transactions, other manufacturing and agricultural trade, and tourism — grew at moderate or even high rates. The South American countries, by contrast, with their concentration in commodity exports and their significant level of intraregional industrial trade, fared poorly.

Not surprisingly, job creation slowed in most of the South American countries but proved to be more dynamic in Mexico, Central America and much of the Caribbean. For the region as a whole, employment slipped from 53.7 per cent of the working-age population in 1998 to 52.5 per cent in 1999, while unemployment climbed from 8.0 to 8.7 per cent, the highest rate ever to be registered since records

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began to be kept for a significant number of countries. Aided by low rates of inflation, real wages performed better than employment did. Indeed, the consolidation of the price stabilization process continues to be one of the principal achievements of the decade. At below 10 per cent, inflation remained under control despite the depreciation of a number of currencies, and 17 of the 22 countries for which information is available had single-digit rates for 1999.

The trade deficit shrank notably, mainly as a consequence of the slump in imports triggered by the stagnation of income levels, which discouraged purchases in general, and the depreciation of local currencies, which raised the cost of foreign goods. Exports also fell in many countries; in fact, if Mexico were not included in the figures, then the region would have registered a 3 per cent contraction in external sales. Both export and import prices were lower. The result was a reduction in the current account deficit, which narrowed from US$ 87.5 billion (4.5 per cent of GDP) in 1998 to US$ 56.5 billion (3.2 per cent) in 1999.

Autonomous capital inflows were the main source of financing for the current account deficit even though they were down to just US$ 43.5 billion (from US$ 69 billion in 1998 and US$ 83 billion in 1997). Compensatory flows and international reserves covered the remainder. In line with the trend of the past several years, foreign direct investment (FDI) dominated the capital account; in fact, this category of investment amounted to US$ 70 billion in 1999, far exceeding total inflows since bank loans, equity purchases and errors and omissions were all negative. International bond issues amounted to over US$ 40 billion, but most of this sum went to amortize and refinance debts falling due. Access to the bond market was uneven, and terms on the new issues — both interest rates and maturities — were significantly worse than they had been during the pre-crisis years.

In their attempts to deal with the unexpected length and severity of the international crisis, macroeconomic policy makers adopted a less contractionary stance than in 1998, especially during the second half of the year. Fiscal spending was not cut to match the decline in revenues, so that the average deficit in the region is likely to exceed 3 per cent of GDP, the highest level of the decade. Late in the year, nominal interest rates were lowered and in a number of countries monetary policy makers gained some manoeuvring room with the shift towards flexible exchange rates. The most prominent case of a switch in exchange-rate regime was Brazil, but similar steps were also taken in Chile, Colombia and Ecuador.

Sluggish growth rates, the lagged effects of high interest rates and exchange-rate depreciation had a negative impact on the financial sector in many countries. The ratio of non-performing loans increased substantially, and this was reflected in banking crises in several instances. Particular difficulties arose in cases where loans had been made in foreign currency since the local currency equivalent increased as a result of devaluations. In general, the reform process slowed its pace as privatizations were postponed, and in some cases tariffs were raised in order to cope with temporary emergencies. Although institutional negotiations at the intraregional level continued to move forward, trade among regional groups contracted sharply and conflicts arose in some cases as a result of differences in economic policy positions.

The year closed on a positive note in terms of projections for the near future, with the United States economy continuing to grow at a fairly rapid pace, Europe's economy growing as well, and Japan and the rest of Asia making a recovery. Conditions in international financial markets are becoming more favourable for the

countries of the region and commodity prices are starting to rebound, indicating that the situation will improve in almost all of the region's countries during the year 2000. ECLAC projections put the growth rate for the region as a whole at 3.7 per cent; Mexico and Central America are expected to post higher growth rates (4.7 and 4.8 per cent, respectively), followed by Brazil (3.7 per cent), the Southern Cone (3.1 per cent) and the Andean countries (2.7 per cent).

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I. Domestic economic performance

1. With the exception of inflation, which was under control in the great majority of Latin American and Caribbean countries, the region's economic performance was weak in 1999, with almost zero growth and downturns in both investment and consumption. In view of these trends, it is hardly surprising that job creation was lower than in the previous year and that unemployment was on the rise. Projections for 2000, however, are more encouraging.

Table 1
Latin America and the Caribbean: main economic indicators

	1997	*1998*	*1999[a]*
Economic activity and prices	*Annual rates of variation*		
Gross domestic product	5.4	2.1	0.3
Per capita gross domestic product	3.7	0.4	-1.3
Consumer prices	10.4	10.3	9.5
Terms of trade	2.2	-5.3	0.7
	Percentages		
Urban open unemployment	7.3	8.0	8.7
External sector	*Billions of dollars*		
Exports of goods and services	326.9	325.4	340.0
Imports of goods and services	356.9	376.5	359.9
Balance on goods	-10.4	-32.6	-5.2
Balance on services	-19.6	-18.6	-14.7
Balance on factor income	-47.2	-52.6	-54.4
Balance on current account	-62.6	-87.5	-56.5
Balance on capital and financial account	83.2	68.7	43.5
Overall balance	20.5	-18.7	-12.8
Net transfers of resources	31.6	24.9	-1.3

Source: ECLAC.
[a] Preliminary estimates.

Regional output stalls

2. Output was stagnant in Latin America and the Caribbean in 1999, with a rate almost two percentage points below the 1998 figure and five percentage points under the 1997 figure, which had been one of the best years in the last quarter century. Per capita output contracted by 1.3 per cent, but even so was still 14 per cent above its level at the beginning of the decade.

3. Overall economic performance in 1999 was the outcome of the very different performances of two groups of countries. On the one hand, there were the dynamic economies of Mexico and various Central American and Caribbean countries. Costa Rica, Cuba, Dominican Republic, Nicaragua, and Trinidad and Tobago were particularly notable, with gross domestic product (GDP) growth of between 6 and 8 per cent, while Mexico had the highest rate of any of the region's medium-sized or large economies. Not all countries in this geographical area grew as briskly, however. The Honduran economy, for example, contracted in the wake of hurricane Mitch, which had devastated the country at the end of 1998, and the growth rate in Jamaica fell as well.

4. In South America, economic problems were much more widespread in 1999. Declines of 3 per cent or more were posted in Argentina, Colombia, Ecuador and Venezuela, and there were smaller downturns in Chile, Paraguay and Uruguay. Brazil's modest growth rate of 0.8 per cent was a significant factor in the stagnation of the region's economy given the size of the Brazilian economy.

5. The adverse economic conditions that affected the region began to appear in late 1997. The downswing then intensified as the impact of the international financial crisis grew, with abrupt drops in capital flows and steep reductions in the terms of trade. The list of countries in which economic activity was on the rise grew shorter, while the number of countries with declining output increased.

6. The region's national income was also stagnant in 1999, though individual figures varied. In most countries, the deterioration in the terms of trade noticeably affected national income, which fell in a number of cases. In the oil-producing countries, however, particularly Mexico and Venezuela, national income did better than GDP as a result of the significant rise in oil prices from their levels in 1998, when they had fallen sharply.

Moderate recovery expected in 2000

7. In 2000, the Latin American economies are expected to rebound from their 1999 doldrums. Economic Commission for Latin America and the Caribbean (ECLAC) estimates put the growth rate at

3.7 per cent, which will bring the decade to a close with an average growth rate of 3.2 per cent. This quite encouraging projection is based on the promising outlook for the international economy, with significant growth, very low inflation and moderate interest rates in the developed countries. At the same time, the external sector is expected to improve in a number of the region's countries as a result of the devaluation of local currencies, which ought to stimulate exports and keep imports down. This scenario is based on the assumption that international capital markets will continue to improve, thereby paving the way for larger capital inflows. Growth rates in Mexico and the Central American and Caribbean countries, which turned in the best performance in the region in 1999, are also likely to rise next year. Meanwhile, the South American countries are expected to make a recovery after their weak 1999 performance. There are already signs of an upturn in Brazil, which will be helpful to neighbouring countries.

Investment retreats

8. Investment in 1999 fell sharply as a result of the international crisis, and private investment was especially hard hit. Trends in this variable were also quite uneven, with the Central American and Caribbean countries suffering less than South America. The decreases were the steepest in Chile, Colombia and Ecuador and less so in Argentina, Peru, Uruguay and Venezuela. The best-performing countries were Honduras, Nicaragua, Panama and Cuba. This situation was partly attributable to a marked increase in public investment for rehabilitation and reconstruction following the devastation of hurricane Mitch (Honduras and Nicaragua) and to increased public and private investment in infrastructure (Panama).

9. Changes in the sources of investment financing included a decrease in external saving amounting to more than two percentage points of GDP,[1] while the contribution of domestic and national saving increased by more than one percentage point. In 14 of the 19 countries for which information is available, however, the latter was weakened by increasingly unfavourable terms of trade. This was a particularly important factor in Chile, El Salvador, Honduras, Nicaragua, Paraguay, Peru and Uruguay.

Inflation holds steady at low levels

10. The average inflation rate for the region was 9.5 per cent in 1999, the lowest figures in half a century. Inflation has dropped rapidly in recent years, plunging from 888 per cent in 1993 to 10 per cent in 1997, since when it has levelled off. In fact, 17 of the 22 countries with information available were in the single-digit range for the year. There were significant increases in only two cases: in Brazil, inflation moved up from 2.5 per cent in 1998 to about 8.5 per cent in 1999, and in Ecuador it rose from 43 to 61 per cent.

11. Among the best performers, Argentina again stood out, with a drop of 1.8 per cent in its consumer price index. Other countries with very low inflation (3 per cent or less) were Bolivia, Chile, El Salvador and Panama. The first three of these countries consolidated their stabilization processes after achieving very significant advances in recent years. Panama continued to register its usual low rate of inflation.

12. Despite the devaluation of various of the countries' currencies, the impact was not passed on to domestic prices thanks to tight monetary policy and the recession that persisted through the first three quarters of the year.

13. Brazil experienced a setback in its price stabilization process, which in the preceding years had enabled the country to control inflation, after posting four-digit inflation rates in the late 1980s and early 1990s. The setback was directly related to the steep devaluation of the currency in the early part of the year. However, the effects of economic stagnation and the deindexation process that has been going on in recent years prevented most of the devaluation's impact from being passed on to consumer prices. Ecuador has been having the most difficult time of any country in the region due to the depth of the economic and financial crisis that has overtaken it. The crisis has triggered an inflationary spike that has pushed rates up to over 60 per cent for the first time since 1992.

Labour market problems worsen

14. The deterioration of the situation in the labour market, which began to become apparent midway through the decade (with a temporary remission in 1997), accelerated in 1999. The economic problems that have arisen in various countries since late 1998, especially in the southern part of the region, were

reflected in falling employment rates and sharply rising unemployment.

15. Sluggish economic growth rates led to a drop in the average employment rate. The proportion of total employment accounted for by wage earners decreased in many countries, including Argentina, Brazil, Chile, Colombia and Ecuador. The result was a further expansion of the informal segment of the labour market. The economic slowdown was particularly hard on employment in construction and manufacturing.

16. In contrast, as was also the case the year before, formal employment levels in Mexico and some Central American and Caribbean countries were boosted by higher growth rates thanks to the stimulus provided by these countries' links with the booming United States economy.

17. In keeping with these trends, the unemployment rate for the region as a whole rose from 8.0 to 8.7 per cent, the highest level ever recorded since labour statistics became available for a significant number of the region's countries. The largest increases in unemployment were in Argentina, Chile, Colombia, Ecuador and Venezuela. By contrast, in Brazil, where unemployment in 1998 had reached levels comparable to those of the early 1980s, the rate remained relatively steady, while in Mexico and a number of Central American and Caribbean countries it fell.

18. Real wages in the formal sector performed better than employment, with upswings in Chile, Colombia, Costa Rica, Nicaragua and Uruguay. In all of these countries, the increase in wages was due in large part to the decline in inflation, especially where prices rose less than projected (principally Chile, Colombia and Uruguay). In contrast, real wages stalled in Argentina, Mexico and Paraguay, and fell in Brazil and Peru.

II. Macroeconomic policy and reforms

19. Macroeconomic policy was marked by sharp contrasts during the year. The larger fiscal deficit partially offset the fall in private domestic demand, while monetary policy makers maintained an austere stance until midway through the year. This stance was then relaxed somewhat, and interest rates moved down slightly. Exchange-rate policy also became more flexible. The status of the banking sector remains a cause for concern in several countries; new lending remains depressed and the quality of the banking system's loan portfolio has deteriorated.

Fiscal deficit widens

20. The recessionary conditions existing in the region drove down fiscal revenues at a time when a number of the countries had drawn up budgets for 1999 that allowed for increased public expenditure. The prime objective during the year was to continue, insofar as possible, to execute public investment and expenditure programmes in the social sector at their budgeted levels, even though fiscal revenues were lower than initially expected. As a result, the countries' average non-financial public-sector deficit rose to 3.2 per cent of GDP, its highest level of the decade.

21. The greater increase seen in spending in the region can be attributed to four factors, the first two of which relate to investment. Apart from addressing infrastructure investment needs that could no longer be put off, several countries that had been hit by natural disasters the year before had to make significant investments in reconstruction work. In addition, many Governments in the region renewed their efforts to satisfy social needs that they had been postponing as they strove to maintain fiscal stability. Lastly, the service on the public sector's external debt (expressed in local currency) continued to rise in 1999, both as a natural outcome of a slightly higher level of external indebtedness and because of devaluations. Domestic debt service also led to higher expenditure because of the delayed effect of monetary policy in countries that attempted to use interest-rate hikes to curb the depreciation of their currencies.

22. The negative trend in income was the other contributing factor behind the larger budgetary shortfall. Weaker economic activity and a slowdown in international trade depressed tax revenues for the second year running, and this was compounded by tariff reductions, especially in Central America. However, an upswing in non-tax revenues — driven by rebounding international oil prices (in Colombia, Ecuador, Mexico and Venezuela) together with other non-recurrent receipts — partly offset these cuts. Tax authorities also reacted by proposing rate hikes and measures to combat evasion.

Monetary policy makers adopt a less defensive stance

23. Monetary policy was largely determined by events in the external sector, particularly with regard to the countries' access to capital markets. The prevailing mood at the beginning of the year was one of strict austerity in most of the region, especially in countries that had lost international reserves when the global crisis deepened in August 1998 or encountered difficulties in the area of external trade.

24. Austerity policies were maintained for most of the first half of 1999 in response to the uncertainty generated by the turbulence on currency markets that marked this period, as several countries devalued their currencies and Ecuador instituted a partial moratorium on its external debt. A few countries, including Guatemala, adopted a more expansionary policy from the very start of the year.

25. Nonetheless, monetary policy makers generally began to adopt a more flexible stance towards the end of the first semester, for two main reasons. The first was the international financial markets' return to greater stability, which facilitated access to external financing. This more optimistic outlook was also backed up by the Brazilian economy's positive reaction to the January devaluation since this kept the spectre of contagion from the crisis at bay. The second contributing factor was of a domestic nature and had to do both with the persistence of underlying recessionary forces in several of the region's countries and with a worsening situation in domestic financial markets.

26. Monetary authorities were even more inclined than usual to respond to calls from business sectors to make macroeconomic policy more flexible and encourage economic recovery since inflation rates were generally at or below the targeted rates in a majority of countries. Making exchange-rate policy more flexible (for example, in Colombia) also gave them room to lower the interest rate. And signs that the recession had bottomed out provided grounds for the supposition that an increase in the demand for money would accompany the expected upturn in production activity. The widening fiscal deficit nonetheless made it necessary to hold to a prudent line of monetary policy.

27. In a number of countries, the nominal interest rate began to edge down cautiously at the end of the second quarter. This more relaxed monetary policy stance led to an easing of the downward trend in real liquidity that had predominated in Latin America since the fourth quarter of 1998 (the real variation in the money supply (M1) was -5 per cent in the 12 months to December 1998), and a slight upturn in the real money supply started to be seen in the third quarter of 1999.

28. The slowdown in the rate of inflation partly offset the fall in the nominal interest rate, so average real interest rates remained higher than in 1998. This was especially true of Mexico, Paraguay, Peru and Bolivia, while the main exceptions were Chile and Ecuador.

Banking crisis continues

29. The recession that overtook many of the region's countries and the high real interest rates that have prevailed since the international crisis of September 1998 reduced new credit demand. The upswing in lending rates further undermined the position of firms that were already in financial distress, and this in turn caused the quality of bank loan portfolios to deteriorate.

30. In addition, the great majority of countries in the region have been affected to varying degrees by financial disturbances that have made the banking sector more risk-averse than before. As a result, a decline in domestic credit activity and a trend towards financial disintermediation have been apparent in many cases. The difficult conditions existing in many of the countries' financial systems prompted a great deal of restructuring and consolidation via mergers and acquisitions, especially in Peru and Colombia, and a similar situation is expected to arise in Ecuador as well. In Mexico, the new Bank Savings Protection Institute began operations in September. Current estimates place the total cost to the Mexican Government of bailing out the banking system and implementing a support programme for debtors at almost 22 per cent of GDP by the end of 1999.

Exchange-rate policy becomes more flexible

31. The management of exchange-rate policy exhibited more flexibility. Four countries (Brazil, Colombia, Chile and Ecuador) abandoned in 1999 their currency band regimes and let their currencies float, and this latter type of regime is now the most common system in the region. The system of currency bands, which played a very important role in stabilization programmes based on the use of the nominal exchange rate as an anchor, has come under increasing criticism

on the grounds that it generates vulnerability to speculative attacks. Only four Latin American countries (Argentina, El Salvador, Panama and Ecuador since 2000) and a group of small economies in the Eastern Caribbean still have either de facto or *de jure* fixed parity systems. In any event, the floating systems that are in use involve a more than negligible amount of intervention. In Mexico and Brazil, for example, monetary authorities have repeatedly stepped in to smooth out fluctuations in the exchange rate, and monetary policy has continued to be highly dependent on external factors.

32. Trends in nominal exchange rates were very different in South America from the rest of the region. In South America, the increase in the nominal rate of devaluation, which had begun in late 1997, gained momentum starting in January 1999 because of the Brazilian devaluation. The steepest rates of devaluation were seen in Ecuador (an increase of nearly 100 per cent in the average exchange rate for the year), Brazil (57 per cent) and Colombia (24 per cent).

33. Mexican and Central American currency markets showed the effects of the disturbances in Brazil during the first quarter but then quickly returned to normal levels, with average rates of devaluation comparable to those registered before the Russian crisis of 1998. Exchange rates in Guatemala, however, were a source of tension, as the currency's 16 per cent devaluation was extreme in the context of the country's history.

34. Continuing a pattern that had become apparent the year before, the Caribbean countries were isolated from the international financial turbulence that affected other countries in the region. Exchange rates there remained on the same trend as before, with average rates of devaluation on the order of 2 per cent. The exception was the somewhat higher rate of devaluation registered by Jamaica (6.3 per cent), where the effects of an economic crisis are still being felt.

35. As inflation has been falling throughout the region, real exchange rates have followed the patterns of nominal variation quite closely. In 1999, the simple average of the depreciation rates among Latin American countries was 3.5 per cent. The only case in which an appreciation was observed when rates were measured as subregional aggregates was the Caribbean, and even there the rise was slight (1.7 per cent).

Reforms continue at a slower pace

36. In 1999, the economic crisis put a brake on structural reform in the region since the authorities had to focus their efforts on dealing with immediate problems. Privatization programmes suffered as scheduled projects were postponed, and proceeds from privatization (slightly over US$ 12 billion) were far below the previous year's record figure (US$ 40 billion). Argentina accounted for one third of the total and Brazil for another third. The sectoral diversification of privatizations and concessions continued, with operations being conducted that involved ports, airports, public water systems, highways, railroads, telecommunications, power generation and distribution, and natural gas.

37. Deteriorating fiscal balances triggered efforts to find institutional arrangements that could give the authorities tighter control over fiscal accounts (the convertibility law in Argentina, fiscal accountability legislation in Brazil and a fiscal prudence bill in Peru). Guyana joined the list of countries that have legislatively mandated the independence of their central banks. Against a background of latent or overt crisis in national financial systems, efforts were made to continue strengthening bank supervision and oversight as well, especially in the Caribbean and Central American countries.

III. External sector

38. The international crisis left its mark on the region's external sector for the second year in a row, as the region felt the effects of sluggish foreign capital flows and a steady slide in non-fuel commodity prices. In contrast to what had occurred the previous year, however, the sharp adjustment in the region's economies put a stop to the trend towards a widening deficit on the current account of the balance of payments. The shortfall therefore narrowed from 4.5 per cent of the region's gross domestic product in 1998 to 3.2 per cent in 1999.

39. The substantial reduction in the deficit was mainly the reflection of a smaller negative balance on the trade account. This, in turn, was the result of a sharp downturn in imports, which more than made up for the slowdown or decrease seen in the exports of most countries, particularly in South America. The deficit in factor income widened again, albeit

moderately. At the same time, current transfers, especially family remittances, continued their upward trend in Central America and the Caribbean, thereby helping to narrow these countries' current account deficits.

40. This reduction in the region's deficit was offset, however, by the decrease in foreign capital inflows and higher profit remittances; the combination of these factors resulted in a negative net transfer of resources for the first time since 1990. As had also been the case the year before, the region had to draw upon its international reserves and compensatory financing, this time in the amount of some US$ 13 billion. The use of international reserve assets was less widespread than in 1998, occurring mainly in Brazil and to a lesser extent in Chile, Colombia, Mexico and Peru.

Decline in net capital inflows continues

41. Latin America received autonomous capital flows amounting to US$ 43.5 billion in 1999, which was below the 1998 figure and little more than half of the level of inflows in 1997. Only a few countries, mainly in Central America, saw an increase in inbound capital; inflows to most countries were lower, and Ecuador and Venezuela witnessed net withdrawals. This situation stems from the external financial contraction that began in 1998, especially with respect to loans and equity flows, and carried over into the early months of 1999. Since then, these flows have been making a halting recovery.

42. As had also been the case in the preceding biennium, a large proportion of external finance in 1999 consisted of less volatile types of capital; the main such category was foreign direct investment (FDI), which actually surpassed the exceptionally high levels recorded in 1997-1998. In fact, FDI inflows exceeded total capital inflows for 1999, which indicates that there were net outflows in other categories. The main recipient country was Brazil, but Argentina and the Dominican Republic also posted record levels, and FDI inflows to Mexico remained close to the previous biennium's figure of US$ 11 billion. In a year when private debt flows were used almost entirely for amortization payments, FDI inflows made important contributions to financing the balance-of-payments current account deficit in over half of the countries of the region. In some cases where there was insufficient access to private external resources, financing from official sources, especially loans from multilateral agencies, also played a key role in covering the deficit.

43. International bond placements amounted to over US$ 40 billion, which was somewhat higher than the figure for 1998. These funds went primarily to Argentina, Brazil and Mexico, and to a lesser extent to Chile, Colombia and Venezuela. The main issuers were central Governments and public-sector companies since private firms had difficulties in obtaining financing. The size of individual issues was smaller, and there were more placements in currencies other than the United States dollar, mainly the euro. It was noteworthy that in April 1999, just three months after the devaluation of the Brazilian real, seven of the region's Governments were able to float bond issues on international financial markets amounting to US$ 10 billion at a premium of 550 basis points (5.5 per cent) over United States treasury bonds (5 per cent in April). This upturn was followed by a decline in issues between May and September, which then gave way to another upswing beginning in October that continued during the first quarter of 2000.

44. Following the Russian moratorium in August 1998, the cost of external financing for the region rose sharply — to an annual rate of nearly 15 per cent — before gradually slipping back to 10.5 per cent by April 1999. Later on it rose again, to 12 per cent, and then hovered around that level for the rest of the year. The maturity profile for the region's bond issues in 1999 deteriorated to an average of five years. Bank lending was also affected by the turbulence on international financial markets. The recovery in international bank lending to the region has been very slow, especially when compared to bond placements.

45. Among the more volatile forms of capital, those associated with equity investments began to flow back into the region's main stock markets midway through the second half of 1999. However, the available information indicates that this recovery has a long way to go before fully reversing the large withdrawals that took place in the second half of 1998. At the same time, some of the region's larger economies were still experiencing outflows of other types of short-term capital, although the amounts involved are quite moderate when compared to the massive withdrawals that occurred between August and October 1998.

Slight expansion in the region's external debt

46. In 1999, the total gross disbursed external debt of Latin America and the Caribbean edged up to slightly less than US$ 750 billion, a nominal increase of just 0.5 per cent, the lowest rate for the 1990s. The slowdown in the rate of increase was remarkable when compared to the trend in recent years and reflected the difficulties that the countries have had in obtaining foreign funds, especially from private-sector sources. In nearly half of the region's countries, gross external liabilities increased by negligible amounts and some countries even saw a reduction in nominal terms (Jamaica, Peru and Venezuela). Another group of countries (Argentina, Costa Rica, Chile and Uruguay) saw their gross external liabilities increase by between 4 and 7 per cent, while Paraguay registered a spectacular increase of nearly 40 per cent due to an unprecedented US$ 400 million government bond issue.

47. Indicators of the region's external debt burden for 1999 remained at levels similar to those of 1998, when they had deteriorated for the first time in the 1990s. The ratio of interest due to exports of goods and services held steady at 17 per cent, while the ratio of external debt to exports of goods and services eased slightly to 216 per cent. Over half of the countries continue to display what can be considered satisfactory debt burden indicators, while in the remaining countries these indicators remain a cause for concern. Events relating to external debt renegotiations included Ecuador's default on interest payments on its collateralized Brady bonds during the second semester of 1999. Later, it also defaulted on interest payments on other government liabilities with private-sector creditors when the holders of those Brady bonds rejected the Government's proposal to resort to the underlying guarantee. It is important to note that judging from the behaviour of spreads on Latin American eurobonds in the secondary market, the international financial community appears to see these events as being confined to Ecuador. Honduras and Nicaragua, meanwhile, are hoping to qualify for the highly indebted poor countries (HIPC) initiative, in which Bolivia and Guyana are already participating.

Lower prices and a slump in intraregional trade squeeze export revenues

48. Taking the region as a whole, the value of exports rose by nearly 5 per cent, but this result was largely due to the predominance of Mexico in the aggregate figure. Approximately half of the countries posted lower export values; if it had not been for Mexico, export growth would have been negative (-3 per cent).

49. The competitive gains arising from devaluations in Latin America and countries' declining levels of domestic absorption failed to generate higher export earnings, for two reasons. First, the economies of the region, especially those of the South American countries, continue to be major commodity exporters, and the supply of such products tends to be price inelastic in the short run. Moreover, sales of commodities other than hydrocarbons suffered from steadily weakening prices on world markets, especially in the case of agricultural products, as the downward trend in non-fuel commodity prices persisted. The prices of industrial commodities exported by the region were down as well. As world economic activity strengthened, the prices of various raw materials began to rebound, especially towards the end of the year. This trend was particularly evident in minerals, such as aluminium, copper and nickel, and in beef prices. The price of oil also shot up as a result of the policy to restrict supply adopted by the Organization of Petroleum Exporting Countries (OPEC), and the average price for 1999 was over 40 per cent higher than in 1998.

50. Second, in the category of manufactured products, a strategic component of regional exports, the bulk of the South American countries' sales are made in the regional market, where sales of these products were also hurt by the weakness of economic activity and demand. Consequently, the value of intraregional trade, which in 1998 had already suffered its first contraction in 12 years, plummeted by approximately 25 per cent in the first three quarters of 1999. Trade among the countries of the Southern Cone Common Market fell by this same percentage, while trade in the Andean Community fell even more sharply (35 per cent). The situation was different in the Central American Common Market and the Caribbean Community, where the available information indicates that trade among member countries stayed at the same level as the year before.

51. A different trend was also seen in exports of manufactures from Mexico and several Central American and Caribbean countries, which are primarily sold on world markets, especially the United States. Sales of these products benefited from the expansion of

production capacity in *maquila* industries and from the brisk pace of growth in the United States economy, which is expected to amount to as much as 4 per cent for 1999.

52. While a majority of the countries managed to boost their export volumes, all of them except the main oil exporters saw the unit values of their external sales decline. In some cases, the drop in prices offset the increase in volume (e.g., Brazil and Guatemala), while in others it compounded the effect of a reduction in volume (e.g., Argentina, Bolivia, Honduras, Panama, Paraguay and Uruguay), thereby causing export revenues to actually shrink. In contrast, oil exporting countries and those with a sizeable *maquila* sector saw their export earnings rise, as did Chile and Peru, which managed to regain some of the ground lost in 1998. The best performances, with two-digit growth rates, were turned in by Costa Rica, Haiti, Mexico and Venezuela.

Imports decline

53. The total value of the region's merchandise imports fell for the first time in the last 15 years, by more than 4 per cent; excluding Mexico, it fell by 15 per cent. This was the result of a combination of factors, the most important being the adjustment brought about by slack domestic demand and currency devaluations. As a result of this adjustment, import volumes contracted sharply in nearly all the South American countries; furthermore, in almost every case the decrease was in the double-digit range and was reflected in all product categories (consumer, capital and intermediate goods).

54. In some cases, however, there were other factors that boosted imports. Countries whose exports expanded as a result of the buoyancy of the *maquila* sector also had to purchase more imports, particularly of intermediate goods, since these assembly industries work almost entirely with foreign components. This was a contributing factor to the increase seen in Mexico's import volumes and was also decisive in several other Central American and Caribbean countries, beginning with Costa Rica. Other factors of a circumstantial nature included foreign direct investments that entailed the purchase of capital goods, as in the case of Bolivia; reconstruction work following natural disasters in Nicaragua and Honduras; and the need to supplement the food supply, as in Haiti. At the same time, decreased sales by Panama and Paraguay in the form of re-exports to other countries in the region also entailed a reduction in foreign purchases.

55. The import bill was also lightened by the widespread fall in the prices of the products purchased, with the notable exception of oil. The prices of the manufactures exported by developed countries, which represent the largest share of regional imports, fell by an average of 1.5 per cent. This decline was compounded by the even larger drop in the prices of many industrial commodities (steel, chemicals and fertilizers, for example) and of foodstuffs and other non-fuel commodities. On average, the regional terms of trade improved slightly following the previous year's downturn.

Notes

[1] This figure is in constant local currency and hence differs from the balance-of-payments current account, which is measured in current dollars.

Table 2
Latin America and the Caribbean: total gross domestic product
(Percentages, based on values at 1995 prices)

	Annual growth rates								
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999[a]*
Latin America and the Caribbean	3.8	3.2	3.9	5.3	1.1	3.6	5.4	2.1	0.3
Subtotal (19 countries)[b]	**3.9**	**3.3**	**3.9**	**5.3**	**1.1**	**3.6**	**5.4**	**2.1**	**0.3**
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.9	-2.9
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.1	4.6	1.0
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.5	-0.1	0.8
Chile	7.3	11.0	6.6	5.1	9.1	6.9	6.8	3.1	-1.1
Colombia	2.0	4.1	5.2	6.1	5.2	2.1	3.4	0.5	-5.2
Costa Rica	2.2	7.1	5.8	4.3	2.2	-0.5	3.5	6.4	7.7
Cuba	-10.9	-11.2	-14.7	0.6	2.4	7.8	2.5	1.5	6.0
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-7.3
El Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.2	2.6
Guatemala	3.7	4.9	4.0	4.1	5.0	3.0	4.3	5.0	3.4
Haiti	0.1	-13.8	-2.2	-8.3	5.0	2.8	1.5	3.2	2.3
Honduras	2.7	5.8	7.1	-1.9	3.7	3.8	5.0	3.9	-1.9
Mexico	4.2	3.7	1.8	4.4	-6.1	5.4	6.8	5.0	3.6
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	6.9
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.4	3.2
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	0.5
Peru	2.5	-0.9	5.7	13.6	8.6	2.3	8.6	0.1	3.8
Dominican Republic	0.8	6.4	2.0	4.3	4.4	6.8	7.1	6.0	7.6
Uruguay	2.9	7.4	3.1	5.5	-2.0	5.0	5.0	4.6	-3.4
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	6.6	-0.2	-7.2
Subtotal Caribbean	**1.6**	**0.7**	**0.6**	**3.1**	**2.7**	**2.8**	**2.0**	**1.8**	**3.2**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	3.9	4.0
Barbados	-3.6	-5.5	0.9	3.5	2.3	5.3	3.1	3.1	2.5
Belize	3.0	9.0	4.3	1.6	3.6	1.3	4.1	1.5	5.7
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.2	2.4	1.0
Grenada	3.7	1.0	-1.1	3.4	3.0	3.2	4.7	5.0	4.0
Guyana	9.4	9.4	11.8	9.6	3.2	8.5	9.1	-2.2	1.8
Jamaica	0.3	2.5	1.8	1.9	1.8	-0.3	-2.2	-1.0	-1.1
Saint Kitts and Nevis	2.5	3.2	5.2	5.6	3.2	5.8	7.2	1.7	...
Saint Vincent and the Grenadines	1.6	6.7	2.4	-2.6	7.8	1.7	3.2	5.5	4.0
Saint Lucia	-0.3	7.5	1.6	1.6	2.1	0.8	-0.3	2.3	3.9

	Annual growth rates								
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999[a]*
Suriname	4.0	-1.7	-11.7	-0.9	2.4	7.6	4.2	...	...
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.1	4.1	4.0	3.8	6.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimate.
[b] Excluding Cuba.

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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 1999-2000

Executive summary

Economic growth accelerated in the region in 1999, specifically during the second half of the year. Provisional estimates indicate that the combined real gross domestic product (GDP) of Economic and Social Commission for Western Asia (ESCWA) members, excluding Iraq, grew by a rate of 3.12 per cent in 1999. The 3.12 per cent growth rate in 1999 was higher than the rate of 2.31 per cent registered in 1998 but lower than the 3.39 per cent real GDP growth achieved by the region in 1997.

Real GDP growth rates differed significantly between the Gulf Cooperation Council (GCC) countries and the countries with more diversified economies, and among the countries of each group. Estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries** as a group was 2.63 per cent, while the ESCWA members with more diversified economies,*** excluding Iraq, achieved a 4.1 per cent growth rate.

The factor that enhanced economic growth most in 1999 and greatly improved the outlook for the year 2000 for the majority of ESCWA members was the sharp rebound in oil prices and revenues, which began in March and continued through the end of 1999. This was particularly true for the GCC countries, where oil accounts for over 35 per cent of GDP, 75 per cent of government revenues and 85 per cent of exports.

* E/2000/100.
** Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
*** Egypt, Iraq, Jordan, Lebanon, Syrian Arab Republic, Yemen, and the West Bank and Gaza Strip.

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Along with the higher oil prices and revenues, the most important factors affecting economic growth in the GCC countries in 1999 included oil production cutbacks, fiscal and monetary policies, and economic diversification and reform. All GCC countries benefited considerably from higher oil prices and revenues. While some countries quickly raised government expenditures at the first sign of higher oil prices and revenues, others were more cautious and increased government spending only late in the year. Since most of the currencies of GCC countries are pegged to the United States dollar, generally tight and prudent monetary policies were pursued in view of the higher interest rates in the United States of America. The GCC countries that were more diversified and had already implemented notable economic and structural reforms registered the highest rate of economic growth within the GCC group in 1999.

For the ESCWA members with more diversified economies, excluding Iraq, estimates indicate that combined real GDP grew by 4.1 per cent in 1999, a rate slightly lower than the 4.97 per cent registered in 1998. However, real GDP growth rates for 1999 differed widely among the members of this group. Egypt, Jordan, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 2.0 per cent or higher; however, Lebanon and the Syrian Arab Republic are estimated to have witnessed real GDP growth rates of 1 per cent or lower.

Developments in the international oil market have considerable economic implications for the region. Ten of the 13 ESCWA members are oil-exporting countries. In 1999, oil prices and revenues rebounded sharply from the depressed levels of 1998. The annual average price of the Organization of Petroleum Exporting Countries (OPEC) crude oil basket is estimated at $17.47 per barrel for 1999, which is about $5 per barrel higher than the average for the preceding year, representing an increase of over 40 per cent. Estimates indicate that the region's oil revenues totalled $93.94 billion in 1999, a 35.8 per cent increase over the 1998 level of $69.15 billion. Higher oil revenues in 1999 greatly improved the trade and fiscal positions of many ESCWA members, in particular the GCC countries.

Labour market conditions remained generally unfavourable for job seekers in most of the countries with more diversified economies in 1999.

High unemployment rates among youth present a serious problem for many ESCWA member countries. The youth unemployment rate is about three times the equivalent rate for the total labour force. It is more serious for young women because the share of first-time job seekers among the total unemployed female population is significantly higher than the equivalent rate for men, indicating extreme difficulty for young women in job searching after graduation. Women's share of the adult labour force in the labour-sending countries in the ESCWA region ranges from 20 to 30 per cent, and the share is even lower in the GCC countries, ranging from 10 to 20 per cent.

In the GCC countries, the indigenization of the labour force has been a declared policy for many years but was enforced far more strictly in 1998, a year during which financial and economic conditions deteriorated abruptly and the number of GCC nationals seeking employment opportunities continued to rise rapidly. The intensity of Governments' efforts to replace expatriate workers with citizens seeking employment continued in 1999, despite improving economic and financial conditions.

Preliminary estimates indicate that most ESCWA members had inflation rates of 2.3 per cent or lower in 1999. Both the GCC countries and the ESCWA members with more diversified economies were able to keep inflation under control.

In 1999, budget deficits as a percentage of GDP decreased in most countries of the region to about 3 per cent or less. The largest declines were registered in the GCC countries, which had based their respective 1999 budgets on the assumption that oil prices would average about $11 per barrel in 1999.

The performance of the stock markets in the ESCWA region in 1999 was mixed, with some markets benefiting from higher oil prices and the return of investors' confidence and others held back by low levels of economic growth, relatively high interest rates and delays on the reform and privatization tracks. Overall, the market capitalization of stock markets in the ESCWA region increased by 8 per cent, from about $128 billion in 1998 to $138 billion in 1999.

The performance of the region's external sector improved drastically in 1999 compared with 1998, owing mainly to sharply higher oil prices. Despite reductions in the volume of oil exported by the GCC countries, the total value of these exports increased substantially owing to the 41 per cent rise in oil prices. Given the dominant share of oil in the external sector, total exports of GCC countries increased markedly in 1999. The current account positions of all countries in this group were significantly better in 1999 than in the previous year. Meanwhile, the increase in oil prices had positive repercussions on the external accounts of the more diversified economies as well. These countries benefited either directly from higher oil prices (for the oil exporters among them — Egypt, the Syrian Arab Republic and Yemen) and/or indirectly through an increase in their exports to the Gulf countries, larger workers' remittances and financial aid from GCC countries since such flows are usually positively correlated with oil revenue.

Research and development expenditures as a percentage of gross national product remained low, at about 0.2 per cent in many ESCWA member countries and falling below 0.05 per cent in some. The future of national systems of science and technology in the ESCWA member countries is highly dependent on graduates from the institutions of higher learning as well as technical and vocational training institutions. Recent reviews of the state of these institutions offer both causes for concern and grounds for some hope.

In the ESCWA region, non-governmental organizations, especially quality and gender-sensitive NGOs, are emerging as contributors to the process of democratization and as catalysts and agents of change in the participatory development model.

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I. Aggregate economic performance

1. Economic growth accelerated in the region in 1999, specifically during the second half of the year. The 3.12 per cent growth rate in 1999 was higher than the rate of 2.31 per cent registered in 1998 but lower than the 3.39 per cent real gross domestic product (GDP) growth achieved by the region in 1997 (see figure).

2. Real GDP growth rates differed significantly between the GCC countries and the countries with more diversified economies, as well as among the countries of each group. Estimates indicate that in 1999 the combined real GDP growth rate for the GCC countries as a group was 2.63 per cent, while the countries with more diversified economies, excluding Iraq, achieved a 4.10 per cent growth rate.

3. Estimates indicate that among the GCC countries, the highest growth rates in 1999 were registered in the United Arab Emirates, Oman and Bahrain, and the lowest rates in Kuwait and Qatar.

4. Official government figures indicate that in the United Arab Emirates the non-oil sectors registered 4.7 per cent real growth in 1998, partly offsetting the decline in the oil sector during that year. This growth was achieved because the Government was able to maintain its expenditures as planned despite the then tumbling oil prices and revenues. It was able to do so by drawing on its earnings from its overseas investments, which are estimated at more than $120 billion. In 1999, the country reduced its oil production by almost 9 per cent in comparison with its 1998 level. Preliminary estimates indicate that the United Arab Emirates registered a real growth rate of 6.0 per cent in 1999.

5. Oman's real GDP is estimated to have increased by 3.7 per cent in 1999, up from the provisionally estimated growth rate of 2.9 per cent in 1998. Being a non-member of OPEC, Oman reduced its oil production only marginally in 1999. It also benefited from the economic and structural reforms it had undertaken in previous years. In addition, the agriculture and services sectors performed well in 1999.

6. According to official provisional estimates issued by the Government, real GDP grew by 4.8 per cent in Bahrain in 1998, and preliminary estimates place GDP growth at 4.5 per cent in 1999. Bahrain, also a non-member of the Organization of Petroleum Exporting Countries (OPEC), did not curtail its oil production in 1999. State expenditures on planned projects continued, accelerating during the year as the Government concentrated on promoting economic growth and creating job opportunities for its national labour force. The tourism and banking sectors performed well, particularly during the second half of 1999.

7. Estimates indicate that Saudi Arabia's real GDP grew by only 0.5 per cent in 1998 and 1.8 per cent in 1999. This improvement is primarily due to the considerable increase in government expenditures and investment by the private sector as a result of the sharp rise in oil prices and revenues. Non-oil sectors achieved relatively high growth rates in 1999 since they are directly and indirectly affected by higher oil revenues. The construction, real estate, banking, trade and services sectors are all estimated to have registered growth rates above 5 per cent. Real growth in the non-oil sector, which now accounts for 64 per cent of GDP, is estimated to have more than offset the 4.7 per cent decline in oil production and reductions in capital spending in the energy sector. Furthermore, in the second half of 1999 the Government announced a package of legal measures aimed at encouraging foreign investment in the country. The new legislation allows foreign investors to own property in the country. It also amended the system of local sponsorship of foreigners involved in business enterprises in Saudi Arabia. Non-Saudi Arabians, including expatriate workers, will be allowed to invest in the local stock market through the 12 established mutual funds. In addition, the Government is reviewing a new investment law aimed at reducing the obstacles faced by foreign investors, improving labour regulations and possibly allowing foreign investors to acquire up to 75 per cent ownership in joint ventures in the country.

8. Estimates indicate that Qatar's real GDP grew by 1.3 per cent in 1999, following an estimated growth of 2.5 per cent in the preceding year. Qatar's oil production was 5.97 per cent lower in 1999 than in 1998. The Government maintained its austere spending plans for 1999, which hampered higher growth in the non-oil sectors. Moreover, the exodus of expatriates from the country continued to depress overall market activity, particularly in the real estate, trade and services sectors.

9. According to provisional estimates, Kuwait had a negative growth rate of 1.8 per cent in 1998 and a positive though low growth rate of 0.5 per cent in 1999. The country cut its oil production by 12.02 per cent in 1999 and was slow to increase government expenditures after oil revenues rebounded sharply from their depressed levels of 1998. The departure of expatriates during the first half of 1999 resulted in a decline in the total labour force in Kuwait by an annualized rate of 0.6 per cent, which also adversely affected economic growth in the country.

10. Estimates for the Economic and Social Commission for Western Asia (ESCWA) members with more diversified economies, excluding Iraq, indicate that their combined real GDP grew by 4.1 per cent in 1999, a slightly lower rate than the 4.97 per cent registered in 1998. However, the rates of real GDP growth achieved in 1999 differed widely among the six members of this group: Egypt, Jordan, Yemen, and the West Bank and Gaza Strip are estimated to have achieved real GDP growth rates of 2.0 per cent or higher, while Lebanon and the Syrian Arab Republic are estimated to have achieved rates of 1 per cent or lower.

11. Estimates indicate that Egypt's real GDP grew by 6 per cent in 1999, the highest rate not only among the countries with more diversified economies but within the region as a whole. Furthermore, Egypt's GDP growth rate in 1999 was higher than the rates of 5.3 and 5.0 per cent registered for the country in 1997 and 1998, respectively. Egypt's economy continued to perform well, mainly as a result of the economic reform and structural adjustment programme it has been implementing with great success since 1991 under the auspices of the International Monetary Fund (IMF) and the World Bank. One of the distinctive aspects of the economic reform experience in Egypt is that it has been very successful in achieving its economic reform goals without major adverse social effects. This was possible because the growth process has been accompanied by introducing social safety nets that have helped the vulnerable groups. Egypt's privatization programme is generally regarded as one of the most successful in the world. In 1993, 182 of the 303 public sector companies, or 60 per cent, were making a profit; that proportion has risen to 89 per cent, as 145 of the remaining 163 public sector companies currently show a profit. Furthermore, Egypt has been successful in attracting major foreign strategic investors, such as Alcoa, Nestlé, Daewoo and Alcatel, to name a few. Foreign direct investment (FDI) inward stock increased from $2.3 billion in 1980 to $11 billion in 1990, reaching $16.7 billion in 1998 after rising by $1.1 billion from its 1997 level. FDI inflow is expected to have doubled in 1999 to about $2 billion. With its greater efficiency in production, the surge in FDI inflows, booming tourism and rejuvenated private sector, Egypt was able to achieve a real GDP growth rate that was close to triple its annual population growth rate of about 2.1 per cent. Nevertheless, even higher GDP growth would have been registered if Egypt's banking sector were more efficient. There are many banks in Egypt, but owing to the fragmentation of the banking sector banking services are inadequate. This sector must consolidate in order to contribute more to Egypt's economic growth and enhance its competitiveness in what is rapidly becoming a globalized world economy.

12. The real GDP of Yemen and the West Bank and Gaza Strip grew at faster rates in 1999 than in 1998. Yemen's real GDP growth rose from 3.2 to 4.2 per cent, mainly owing to the performance of the country's oil sector, which witnessed a 5 per cent increase in oil production and a sharp rise in prices. Higher oil revenues allowed the Government to increase its expenditures, which helped accelerate growth in the non-oil sectors. Several attacks on tourists adversely affected both the tourism sector and the inflow of foreign direct investment and dampened prospects for higher growth in 1999. In the West Bank and Gaza Strip, real GDP is estimated to have grown by rates of 4.10 per cent in 1998 and 4.60 per cent in 1999. The economy benefited in 1999 from the services of the international airport in the Gaza Strip and from the major work done on the Gaza port. Nevertheless, the biggest boost to the economy of the West Bank and Gaza Strip came from surging tourism and from soft loans for economic development provided by the World Bank and several donor countries.

13. Jordan's real GDP is estimated to have grown by 1.70 per cent in 1998 and by 2.10 per cent in 1999. There has been a notable increase in private investment and higher growth in the services sector, particularly in tourism. However, the decline in agricultural output, caused by water shortages, negated some of the growth achieved in other sectors.

14. Lebanon's real GDP growth declined from 3.5 per cent in 1997 to 3 per cent in 1998, and slowed further

to about 0.8 per cent in 1999. The crisis in the construction sector continued in 1999, sustained mostly by high interest rates. The banking sector witnessed a slowdown in its activity in 1999 compared with 1998, manifested in the declines in annual growth rates of deposits, loans and total balance sheets. The tourism sector continued to perform well, however, with the number of visitors increasing by about 15 per cent in comparison with the 1998 level. Interest rates on two-year treasury bills fell from 16 to 14 per cent during the first 11 months of 1999. Nevertheless, the interest rate is still considered too high and should be reduced a lot further in order to decrease the country's debt-service burden and stimulate the economy. This is particularly important now, as the Government is raising taxes and curtailing its expenditures in an effort to reduce its budget deficit as a percentage of GDP, and is also struggling to service a total public debt that passed the $20 billion mark during the latter part of 1999. The Government of Lebanon declared that it would endeavour to achieve an annual GDP growth of 3 to 5 per cent during the coming five years. To realize this goal, the Government must adopt measures that encourage private investment, both Lebanese and foreign; accelerate economic and administrative reforms; and launch the privatization process as soon as possible.

15. Official government sources indicate that in the Syrian Arab Republic real GDP grew by 7.8 per cent in 1998 but only 0.5 per cent in 1999. The major factor causing the reversal of economic performance was the country's agricultural output, which declined considerably in 1999, mainly owing to the 60 per cent drop in rainfall during the year in comparison with past annual averages. The agricultural sector is a major contributor to the country's economy.

16. Economic growth is estimated to have increased in Iraq owing mainly to the effects of significantly higher oil revenues. Nevertheless, since the economic sanctions imposed by the United Nations on Iraq not only restrict the country's trading activities and capital movement but also deny the Government of Iraq control over the country's oil revenues, economic conditions remained very poor.

17. Oil production in the region averaged 17.74 million barrels per day (b/d) in 1999, a decline of about 3.3 per cent in comparison with the 18.35 million b/d produced in 1998. Among ESCWA members, the largest percentage decreases in oil production were registered in Kuwait and the United Arab Emirates, which had production levels that were about 12.02 or 10.04 per cent below their respective 1998 levels. Oil production was increased by some other ESCWA members, however, most notably Iraq, which produced an average of 2.53 million b/d, about 20 per cent more than the 2.11 million b/d recorded for 1998. It may be noted here that because of their general adherence to the cutbacks agreed upon within OPEC, Saudi Arabia, Kuwait and the United Arab Emirates are currently left with idle oil production capacities, estimated at 3 million b/d, 650,000 b/d and 500,000 b/d, respectively.

18. Labour market conditions remained generally unfavourable for job seekers in most of the countries with more diversified economies in 1999. Most countries in the region have fairly high population growth rates and significantly higher labour supply growth rates. Women's participation rate in the labour force, though increasing, remains relatively low in the countries of the region. Figures indicating the share of women in the labour force in Egypt, Jordan, Lebanon, the Syrian Arab Republic and Yemen range between 21 and 30 per cent. For the rest of the ESCWA members that share is even lower, ranging between 11 and 20 per cent. Economic growth was at best sluggish in Jordan, Lebanon and the Syrian Arab Republic; hence, it is estimated that only negligible improvements took place in the domestic labour markets despite the fact that some employment opportunities emerged abroad during the latter part of the year.

19. In Egypt, however, economic reforms, gigantic development projects in the Sinai Peninsula and the New Valley, surging foreign direct investment and the booming tourism sector are believed to have contributed greatly to pushing the country's unemployment rate lower in 1999. Official government figures indicate that the unemployment rate in Egypt peaked at 10.4 per cent in 1993, partly owing to the return of expatriate workers as a result of the Gulf war, but declined every year thereafter. Egypt's unemployment rate dropped to 9.8 per cent in 1994, 9.6 per cent in 1995, 9.2 per cent in 1996, 8.8 per cent in 1997 and 8.3 per cent in 1998, and is estimated to have declined further to 7.9 per cent in 1999. However, other sources, including the International Labour Organization (ILO), estimate unemployment rates to be about 50 per cent higher than official government figures. Nevertheless, it is agreed by most analysts that Egypt's annual unemployment rate is falling, a major

achievement for a country that has to create an additional 450,000 jobs for new entrants to the labour market every year.

20. Labour market conditions are believed to have improved in Yemen and the West Bank and Gaza Strip in 1999, compared with the preceding year. Both benefited from an acceleration in economic growth. But given their relatively high population growth rates of 3.5 per cent and significantly higher growth of labour supply, improvements in the labour market conditions are believed to have been limited.

21. In the GCC countries the labour market is of a different nature: expatriate workers account for the dominant share of the total labour force. These workers have contributed substantially to the economic growth and development of all GCC countries for the past three decades. However, since they are not permitted to own real estate or undertake major investments, expatriates have no choice but to remit the bulk of their earnings to their respective home countries or elsewhere.

22. The indigenization of the labour force has been a declared policy in the GCC countries for many years but was enforced far more strictly in 1998, a year during which financial and economic conditions deteriorated abruptly and the number of GCC nationals seeking employment opportunities continued to rise rapidly. The intensity of Governments' efforts to replace expatriate workers with citizens seeking employment did not diminish in 1999 despite improving economic and financial conditions.

23. In Bahrain, 62 per cent of the total labour force were expatriates in 1998, the lowest proportion among GCC countries but still high in comparison with most other countries in the world. In both 1998 and 1999, the Government maintained the highest public expenditure levels the economy could sustain in order to provide greater employment opportunities for citizens. In addition, the Bahrainization policy continued.

24. In Kuwait, the Government issued a decree imposing a ceiling on the number of expatriate workers Kuwaiti employers could hire. The law calls for increasing the share of Kuwaitis employed in the private sector from the current 1.5 per cent to 5 per cent of the private sector labour force. The decree also provides for the payment of social and child allowances to Kuwaitis working in the private sector, similar to those provided to nationals employed in the public sector. In addition, private sector companies employing more citizens are promised preference in tendering for government projects. During the first half of 1999, the labour force in Kuwait totalled 1.25 million, a decrease of 0.6 per cent in annualized terms. This reduction in the size of the total labour force took place despite the 5.8 per cent rise in the number of employed Kuwaitis, owing to the 1.9 per cent drop in the number of expatriate workers. In the public sector, which contains more than 90 per cent of employed Kuwaitis, the labour force grew by an annualized rate of 5.7 per cent, with 5,543 new labour market entrants absorbed during the first six months of the year. This indicates that the pressure on the Government to limit new hiring is not having the desired effect; in any case, the increase was made possible by the unexpected sharp rise in government revenues.

25. In Oman, the total expatriate labour force declined from 493,847 in 1997 to 482,527 in 1998, or by 2.3 per cent. During the same period, the number of Omani citizens employed by the public sector increased by 2.6 per cent. The Omanization drive continued in 1999, and again proved most successful in the public sector and the banking and finance sector.

26. In Qatar, the policy of replacing expatriate workers with nationals continued. It is estimated that about 75,000 expatriates left Qatar during the two-year period 1998-1999.

27. In Saudi Arabia there are more than 6 million expatriate workers, representing 70 per cent of the Kingdom's total labour force and 90 per cent of its private sector workforce. Among the top priorities included in Saudi Arabia's Seventh Development Plan (2000-2005), announced in August 1999, is the development of the Saudi Arabian labour force and the provision of employment opportunities for nationals. The new Economic Council plans to create jobs for nationals by encouraging foreign and domestic investment and by replacing expatriate workers with local citizens.

28. Four of the GCC countries — Bahrain, Kuwait, Oman and Saudi Arabia — have had inflation rates of 1 per cent or lower during the past three years. Bahrain, Oman and Saudi Arabia even registered negative inflation (deflation) rates in 1998. However, preliminary estimates indicate that in 1999 inflation rates were marginally higher in four of the six GCC

countries. Within the GCC group, inflation is estimated to have been highest in the United Arab Emirates, and Qatar is the only GCC country to have witnessed a decline from the previous year.

29. Since the currencies of all GCC countries are pegged to the United States dollar (with the exception of the Kuwaiti dinar, which is pegged to a basket of currencies dominated by the dollar), the monetary policies of the GCC countries were generally tight in 1999. Interest rates were raised in line with similar action taken by the monetary authorities in the United States. However, in all the GCC countries with the exception of Qatar, government expenditures were notably higher in 1999 than in 1998. Another factor pushing inflation rates upward in these countries was the partial removal of subsidies on goods and services provided by the Government.

30. Bahrain registered an inflation rate of 0.2 per cent in 1997 and a deflation rate of 0.4 per cent in 1998. Preliminary estimates indicate that Bahrain's inflation was 0.5 per cent in 1999, the lowest rate among all ESCWA members. Inflation rates in Kuwait were 0.7 per cent in 1997, 0.2 per cent in 1998 and, according to preliminary estimates, 0.7 per cent in 1999. Oman registered deflation rates of 0.5 per cent in both 1997 and 1998, but preliminary estimates show an inflation rate of 0.8 per cent in 1999.

31. The inflation rate in Qatar was 4.9 per cent in both 1996 and 1997 but is estimated to have fallen to 2.9 per cent in 1998 and 1.5 per cent in 1999. Saudi Arabia had deflation rates of 0.4 per cent in 1997 and 0.2 per cent the following year; however, preliminary estimates indicate an inflation rate of 1 per cent in 1999. The United Arab Emirates had inflation rates of 2 per cent in 1997 and 1.6 per cent in 1998, and preliminary estimates show an increase to 3 per cent in 1999.

32. Estimates indicate that among the countries of the region with more diversified economies, Lebanon and the Syrian Arab Republic had the lowest inflation rate in 1999, at 1 per cent. However, the inflation rate in Lebanon was lower than in 1998, while in the Syrian Arab Republic it was higher.

33. Lebanon's inflation rate fell from 8.9 per cent in 1996 to 7.8 per cent in 1997 and 5 per cent in 1998. The decline in the inflation rate in each of these years accompanied a decline in the country's real GDP growth rate. The trend continued in 1999: weak economic growth, accompanied by constrained government expenditures and tight monetary policies, adversely affected overall consumer demand and investment, bringing about a decline in the country's inflation rate.

34. In the Syrian Arab Republic, the inflation rate fell from 8.8 per cent in 1996 to 2.2 per cent in 1997, and a deflation rate of 1.2 per cent was recorded in 1998. Although economic activity remained sluggish in 1999, the severe drought experienced in the country sharply reduced output in the important agricultural sector, which pushed overall prices upward by 1 per cent.

35. Jordan's inflation rate was relatively low, at 3 and 3.1 per cent in 1997 and 1998, respectively. It is estimated to have declined to 1.9 per cent in 1999 owing to conditions similar to those in Lebanon, including low GDP growth, constrained government expenditures and tight monetary policies. Jordan's inflation did not fall to an even lower level mainly because of higher agricultural commodity prices brought about by the drought.

36. Egypt's inflation rate fell from 7.3 per cent in 1996 to 4.8 per cent in 1997 and 4.1 per cent in 1998. The trend continued in 1999, with inflation estimated at 2.3 per cent. Prudent monetary and fiscal policies contributed to the declines in inflation rates in the country.

37. The sharpest decline in inflation among ESCWA members in 1999 is estimated to have taken place in Yemen, where the inflation rate dropped from 12.2 per cent in 1998 to 2 per cent a year later, according to a preliminary estimate. A major factor contributing to this decline was the strengthening of the Yemeni rial in 1999, owing primarily to greatly higher oil revenues and a significant increase in foreign aid. In the West Bank and Gaza Strip, inflation declined from 7.6 per cent in 1997 to an estimated 5.6 and 4 per cent in 1998 and 1999, respectively.

II. Monetary, fiscal and financial developments

38. The effectiveness of monetary policy in most ESCWA member countries was enhanced during the 1996-1999 period by changes in as well as the introduction of new rules and regulations in the financial system. In a number of member countries,

such as Egypt, Jordan, Oman and Yemen, significant progress has been made in liberalizing the structure of rates, initially deposit rates, and in reducing the scope of preferential rates, particularly for public sector enterprises. Other ESCWA member countries, such as Lebanon and the United Arab Emirates have broadened the different types of assets available to savers through financial instruments with market-determined rates.

39. Improving the mechanisms of monetary control, especially in the context of financial liberalization, necessitated a move away from quantitative credit restrictions towards indirect instruments of monetary control. In most of the member countries, the rediscount instrument has been made more sensitive to market conditions, and the sale and repurchase of central bank papers and treasury bills have been used more often in the management of liquidity. Moreover, the requirements for legal reserves have been made more uniform across the institutions of the financial sector.

40. However, the falling market liquidity in most of the member countries during 1998 and the first half of 1999 pushed up the market interest rates in these countries. These rates stabilized during the second half of 1999, following the rising market liquidity in consequence of the upturn in oil revenues of the GCC countries and the spillovers from these countries to the other group of ESCWA members, while the much needed drive for the mobilization of domestic savings was maintained. The central banks of a number of ESCWA member countries, such as Jordan and Oman, encouraged the banking sectors to offer to the public a range of competitive savings schemes with cash incentives and promotional prizes. In other ESCWA countries, such as Egypt, Lebanon and Saudi Arabia, monitoring money and capital market operations by the central banks was enhanced. It included bank credit policies, examination of asset quality, quality of management, credit appraisal system, adherence to central bank rules and regulations, and other issues concerning solvency, liquidity and general performance.

41. During the past few years, new trends have emerged in fiscal policies in most ESCWA member countries. In the GCC countries, the fluctuation in the major source of their budget revenues, namely oil, necessitated a number of revisions in government spending priorities, aimed at reducing the growth rate in budget expenditures, and consequently the budget deficit. In the member countries with more diversified economies, significant efforts were made to put together deflationary budgets, where expenditures were set to increase at a rate below that of inflation, thus reducing expenditures in real terms. In their endeavour to reduce the dependence of their budget expenditures on oil revenues, the GCC countries sought to establish certain fundamentals for a stable long-term fiscal policy, entailing the introduction of policies aimed at raising non-oil revenues and reducing expenditures. Member countries with more diversified economies resorted increasingly to instruments of domestic resources mobilization, such as improving tax collection methods, introducing new taxes and raising the rates of existing ones, as well as increasing the use of financial instruments, such as bonds and treasury bills. Both groups of member countries sought to reduce budget deficits either by raising the prices and user fees of public utilities and services or by reducing subsidies and granting lower increases in public sector wages and salaries.

42. A number of GCC countries, particularly Oman, Qatar and Saudi Arabia, planned in 1999 the introduction of legislative reforms to encourage foreign investment, thus creating a new source of revenues and reducing the fiscal burden. In this context, privatization should be pursued as a strategic policy option to attract foreign investments and establish a solid economic foundation, based on strengthening the private sector's role in the economy in such a way as to diversify sources of budget revenues.

43. Fiscal reforms in ESCWA member countries with more diversified economies have been planned to eliminate public finance imbalances, adopt the principle of relative scarcity of resources, eliminate squandering of government financial resources and move towards economic conditions, in which public sector enterprises would become efficient, thus being rendered commercially viable. Issues concerning the reduction of indirect subsidies have become a major component of most of these countries' fiscal reform plans, including the introduction of efficient tax regimes, streamlining the civil service, strengthening the fiscal administrative capacity and improving transparency in expenditures.

44. Despite the pledges from most Governments of ESCWA member countries to pursue privatization, the commitment of their Governments to public investment has in effect been maintained, with a rise of between 20

and 25 per cent in the category of the so-called public services. Details of the expenditures reveal that in most member countries, particularly the GCC countries, the increase originates mostly from defence expenditure and other unspecified items of expenditure, while expenditure in such areas as education and health services have decreased as a percentage of total investment and capital expenditures. This development has been of particular concern to the Governments of the GCC countries, especially in light of the upturn in oil prices during the second half of 1999, where Governments had hoped to underwrite expenditures obligated in the budget for these two particular areas but postponed action owing to low oil prices during the first half of 1999.

III. Performance of the external sector

45. The single most important event that characterized the region on the external front during 1999 was the phenomenal increase in oil prices in the second half of the year following the March 1999 decision by OPEC members to cut production. For GCC countries (four of which are members of OPEC), the reduction in oil production was more than offset by the rise in prices. Starting the second quarter of 1999, the declining trend in their exports witnessed over the previous years began to reverse. In Kuwait, for example, oil exports increased by 24 per cent between the first and second quarters of 1999, after declining by 37 per cent in 1998 compared to 1997. In Oman, oil exports rose 41 per cent between the first and second quarters of 1999, after declining by 31 per cent in 1998 compared to 1997. The increase in oil prices and revenues had positive repercussions on the external accounts of diversified economies as well — either directly for the oil exporters among them (Egypt, the Syrian Arab Republic and Yemen) or indirectly through an increase in their exports to the region, workers' remittances and financial aid from GCC countries since such flows are usually positively correlated with oil revenue.

46. Many of the diversified economies in the region rely on the GCC market for their exports, which often accounts for more than 40 per cent of their total exports (such as for Lebanon or Jordan). But with oil exports not yet recovered at the beginning of the year, the share of intraregional export to total exports for most diversified economies declined between the first half of 1998 and the first half of 1999, by about 4 per cent for Jordan, 18 per cent for Lebanon, 20 per cent for the Syrian Arab Republic and 40 per cent for Yemen. Only Egypt was able to slightly increase its intraregional export share, by about 4 per cent over the same period. However, with the rising oil prices, this situation has probably improved during the second half of 1999.

47. International reserves, except gold, in the region increased between 1998 and 1999 for most countries — 27 per cent for Bahrain, 22 per cent for Kuwait, 50 per cent for Oman, 20 per cent for Saudi Arabia, 12 per cent for the United Arab Emirates, 50 per cent for Jordan, 19 per cent for Lebanon and 37 per cent for Yemen. Only Egypt registered a deterioration in its international reserves, which dropped by 17 per cent between 1998 and 1999. However, reserves in Egypt were still covering a comfortable seven months of imports. The surge in Jordan's foreign currency reserves despite a weak current account performance is probably due to deposits made by various Arab countries in support of Jordan after the death of King Hussein in February 1999. At the end of 1999, import coverage was high in Lebanon, Jordan and Kuwait, and lower in other GCC countries.

48. External debts of ESCWA member countries do not show major changes in 1999. In the highly indebted countries, mainly Jordan, Qatar, the Syrian Arab Republic and Yemen, the debt-to-GDP ratio declined slightly in 1997 compared with 1996 except for Qatar, and continued to decline in 1998 compared with 1997, except for Qatar and Yemen. Qatar's debt-to-GDP ratio reached 101 per cent in 1998, from 79 per cent in 1996, and its debt service ratio was among the highest of the region, at over 12 per cent. In order to better manage its external debt, Qatar's strategy has been to diversify its sources of international financing by funding new projects from external loans and bonds rather than volatile oil and gas income. The latter is used to reinforce the State's reserves and meet its external debt repayments. Countries with a relatively low external debt as a share of GDP, mainly Bahrain, Kuwait, Lebanon, Oman and the United Arab Emirates, registered a slight increase in their debt-to-GDP ratio in 1998.

49. The member countries remain committed to globalization. Jordan was accepted into the World Trade Organization (WTO) in December 1999 after passing a series of trade-related intellectual property rights laws, bringing to six the total number of ESCWA

member countries that are WTO members (the others are Bahrain, Egypt, Kuwait, Qatar and the United Arab Emirates). Oman, Lebanon, Saudi Arabia and Yemen have observer status and are continuing negotiations. For Saudi Arabia, WTO membership poses particular challenges since the country is resisting the reduction of its import tariffs to the requisite minimum and the opening of key sectors to foreign investment.

50. In tandem with WTO accession, the GCC countries approved in November 1999 the establishment of a customs union by 2005, after almost two decades of debate. The unification of tariffs will be an important step forward for the GCC countries in their negotiations to establish a free trade area with the European Union. But implementation will probably be delayed due to disagreements among GCC members on the extent and speed of the tariff reductions. The Arab countries had also agreed in 1997 to form the Greater Arab Free Trade Area over the next 10 years, starting 1 January 1998. Implementation has started but is advancing at a slow pace. Some ESCWA member countries are also part of the Euro-Mediterranean agreement to establish a free trade area by 2010 between the European Union and countries along the Mediterranean sea. Of the ESCWA member countries, only Jordan and the Palestine Authority have signed the agreement to date, while Egypt, Lebanon and the Syrian Arab Republic are still in negotiations.

IV. Science and technology in the ESCWA region: an assessment

51. Integrated and comprehensive policy documents dedicated to advancing national science and technology capabilities are still largely absent in ESCWA member countries. Isolated articles of legislation and a variety of laws, rules and regulations have given rise to implicit de facto science and technology policy regimes that are often fragmented, at times even incoherent. This has led to reduced effectiveness and efficiency in the use of already scarce resources, to emphasis on supply-side rather than demand-side considerations and to an emphasis on quantity rather than quality, in relation to science and technology manpower development. Priority areas discernible in such policy regimes include agriculture, the agro-food industries, health services and defence.

52. Research and development centres and institutions of higher learning are two of the most well developed varieties of the national system of science and technology institutions in the member countries. Much greater attention is needed in creating and complementing traditional institutional forms with standards, quality and calibration establishments, outreach and extension services, as well as institutional and regulatory arrangements for rendering venture capital available for science and technology capacity-building.

53. Research and development institutions in ESCWA member countries often possess fragmented and unstable organizational structures, suffer from poor management practices, operate under severe financial constraints and hence make limited contributions to priority socio-economic development issues.

54. Research and development expenditure as a percentage of gross national product (GNP) stands at about 0.2 per cent in many member countries and falls to below 0.05 per cent in some. The higher percentages of research and development expenditures in some ESCWA member countries are only one tenth of what many developed countries spend on research and development as a percentage of GNP.

55. A similar situation is observed in relation to human resources devoted to research and development. Thus, available figures for the number of research personnel per one million inhabitants range between 30 for the Syrian Arab Republic and 230 for Kuwait in 1997, while comparable figures in the developed countries are generally in the range of a few thousand per million. The situation with respect to technical personnel is even less encouraging, with the ratio of technicians per one million inhabitants ranging, in 1997, between 25 in the Syrian Arab Republic and about 70 in Kuwait, as opposed to figures that exceed 1,000 in the developed countries.

56. High participation by women has been registered in research institutions in Egypt, in comparison with institutions in other ESCWA member countries. New employment opportunities made available by the creation of new standards, quality testing and allied institutions are also being taken up by many more women than previously in some other ESCWA member countries.

57. Output produced by science and technology systems essentially finds expression in new and

adapted science and technology knowledge concerning products and processes. This knowledge is often contained within patents, and more often finds its way to specialized science and technology publications. Considering the above-mentioned shortcomings suffered by research and development activity, it is hardly surprising that the output of such activities in ESCWA member countries tends to lag behind other countries and regional groupings. This is partly illustrated by the level of patenting activity in these countries.

58. The future of national systems of science and technology in the member countries is highly dependent upon the graduates from the institutions of higher learning as well as technical and vocational training institutions. Recent reviews of the state of these institutions offer causes for concern as well as grounds for some hope.

59. The number of entrants into national systems of higher education has witnessed steady increases over the years. A number of member countries, in particular Saudi Arabia and the Syrian Arab Republic, are devoting greater attention to training intermediate science and technology manpower.

60. Another positive trend is that many more women now graduate with university degrees in the ESCWA member countries than at any time in the past. This is a general tendency extending over all member countries, including the GCC countries.

61. In general, inadequate financial resources are being allocated to higher education. This is particularly damaging in science and technology areas that require specialized equipment and expensive materials, as well as continuous innovation in university teaching and research facilities. The impact on the quality of science and technology graduates has been considerable.

62. One of the more telling indicators of access to and utilization of modern information sources is the number of top-level domain names set up by a particular country on the Internet. The ESCWA member countries, whose population constitutes 2.7 per cent of the world's total population, appear to have set up only about 0.05 per cent of such names worldwide. Wide variation pertains among member countries with the Syrian Arab Republic in possession of just one name in January 2000 and the United Arab Emirates with more than 19,700.

63. Telecommunication infrastructures in the member countries, essential for maintaining both internal connectivity as well as access to information resources outside the region, remain largely inadequate in terms of both network density and quality in comparison to those in the developed countries and even to world averages.

64. Technology transfer, adaptation and dissemination are core national system of science and technology tasks. In ESCWA member countries, the first task is carried out primarily by government departments and public sector enterprises through directly contracting foreign technology suppliers, with little or no involvement on the part of science and technology institutions. Hence, little action ensues with respect to adaptation and dissemination using local science and technology capabilities.

65. Contracts concluded during 1992-1999 by member countries with suppliers, providing technology in the form of both equipment and services as well as know-how in numerous forms, reveal interesting patterns in technology transfer activity. The GCC countries, particularly Saudi Arabia and the United Arab Emirates, occupy a leading position in spending on technology transfer contracts. Together, these two countries spend as much as 56 per cent of the total amount of contracts — US$ 147 billion concluded by all ESCWA member countries during this period.

66. Contracts involving infrastructure-building, with particular emphasis on telecommunications facilities, and industrial development activity appear to account for most of the expenditure during this period, about 62 per cent of the total value of all contracts concluded during the above-mentioned period. The total amount spent on communication infrastructure-building exceeded US$ 5.2 billion.

V. Gender-sensitive participatory development

67. There is a direct relation between the processes of gender mainstreaming and sustainable development. The recognition of the dynamic but socially constructed roles that women and men can play in the development process has led to a paradigm shift from the "women in development" to the "gender and development" approach, or from the integration of women into the development process to mainstreaming

a gender perspective into policies, plans, programmes and projects of international, regional, national and non-governmental organizations. Worldwide and in the ESCWA region, the marginalization of women and new forms of social exclusion will still persist, in particular affecting poor and vulnerable women. Globalization and structural adjustment pose great challenges and limit opportunities for women and men, including adverse effects on gender relations in ESCWA member countries.

68. The empowerment of women through education and productive employment and institutionalizing family planning within the context of reproductive health care are key goals for sustainability. Women's role is considered to be crucial in determining the future demographic structure of society by virtue of their reproductive function and in harmonizing the interrelationship between population and sustainable development. Women are essential elements in the participatory development process because of their direct involvement in the development of human resources.

69. The size of the population in the ESCWA region increased from 141 million in 1995 to about 167 million in 2000, and is projected to increase to 231 million in 2015. For more than two decades, the population of the region has been growing by an annual rate estimated at 2.9 per cent. The average annual rate of population growth is projected to decline from 2.9 per cent to 2.2 per cent by 2015. The region's total fertility rate is 4.1 in 2000 and is projected to drop to 3.3 in 2015. At the regional level, life expectancy at birth was 71.1 in 2000 and is projected to increase to 73.4 years in 2015. The situation of high fertility combined with low mortality has led to an imbalance in the age structure of the population and created a population momentum phenomenon. There are two implications to this population momentum. First, the youthful age structure will guarantee that the absolute number of births will be high even if the total fertility rate is declining. And second, the increase in working age population will exert high pressure on the absorption capacity of the labour market. Therefore, an early stabilization (over a 20-year period) of population will make a crucial contribution to realizing the objective of sustainable economic development.

70. As for population stabilization, unless comprehensive macro-level measures that target women at various micro- and household levels are taken at the regional level, the total fertility rate will remain well above the stabilization level of 2.1 children per woman until 2015. High fertility rates are often associated with a low level of female participation in the labour force.

71. Although investment in education has over the years improved, as reflected by the increased overall access to education for both women and men in the ESCWA region and the Arab World as a whole, education seems to be insufficiently associated with fertility in the region. An improved secondary enrolment ratio is combined with persistent high fertility rates, suggesting that while education is a necessary prerequisite for population stabilization it is not sufficient to bring about a drastic decline in total fertility from a high to a low level. The level of women's employment and their education are two inseparable, interrelated variables that will determine their decisions on the desired number of children.

72. Marriage patterns in the region reveal that in the 1990s the mean age at first marriage in seven ESCWA countries was below 22.5 years, with total fertility rates ranging between 4.1 and 7.3 per woman. However, in the rest of the region the mean age at first marriage ranged between 23 and 25 years — still much younger than the average of countries with similar per capita GNP levels in other regions of the world. Also, the male-female gap in age of marriage is still wider in the ESCWA region than in other regions, suggesting that the reproductive span of an Arab woman is still very long, and since birth spacing is a recent practice in many ESCWA member countries, fertility rates will remain high for many years to come. Examination of contemporary methods of family planning reveals that use of contraceptives at the regional level was as low as 28 per cent in 1985 but had increased to 40 per cent by 1997. Also, association between contraception and fertility is weak due to deficiencies in knowledge and information.

73. The consequences of weak interaction between socio-economic forces and fertility are illustrated by the visible imbalance in the structure and composition of population. Even though the share of children under age 15 fell, at the regional level, from 41.0 per cent in 1990 to 40.0 per cent in 1995 and 38.1 per cent in 2000, and will fall further to 32.6 per cent in 2015, the absolute number of population under 15 increased from 45.6 million in 1995 to 63.5 million in 2000, and is projected to increase by a gross increment of

29.6 million to reach 75.3 million by 2015. The share of youth (15-24) is currently 18.6 per cent of the total population at the regional level, and will remain almost constant over the period. The process of demographic transition has a direct impact on the labour force participation rate. Even if fertility rate in the region declines, there will still be a process of delayed response in terms of labour supply, particularly the supply of first-time job seekers. This is estimated to last from 10 to 25 years, and the labour force is projected to continue to grow at over 3 per cent annually until 2015.

74. Labour supply exceeds the demand for female labour force in almost all ESCWA member countries, creating a potential for further underutilization of the female labour force. The development of human resources cannot be accomplished without gender equality. Sustainable human resources development implies including gender in the development paradigm.

75. At the dawn of the new millennium, the imbalance between social and economic development, which was initially created by the sudden upsurge in oil revenues in the 1970s, has not yet been totally eliminated in the region despite significant improvement during the past few decades. The shortfalls of social development are more pronounced if the data are presented for each gender separately. When the ranking of ESCWA member countries on the human development index are subtracted from their ranking on the gender development index, the difference is negative in all member countries, indicating an insufficient level of gender mainstreaming in human development. Also, available data for some member countries indicate that their gender empowerment measure ranks are very low on the world scale.

76. During the past few decades, the ESCWA region has made a substantial increase in primary school enrolment rate for both sexes and the gender gap has been minimized, except in Yemen, where it is still significant, with a gross enrolment rate of 118 per cent for boys and 47 per cent for girls. The primary school drop-out rate is still relatively high in some member countries. In 1998, it was 28 per cent for Iraq and 53 per cent for Yemen.

77. Despite the improvement in total enrolment rates at the regional level, especially for the GCC countries, these rates remain significantly lower than those registered in countries with similar GDP per capita. In all levels of education, the female-to-male ratio has been constantly increasing during the past few decades, and at the university level, in a few Gulf countries, more women are enrolled in university than men are. However, almost all member countries have female enrolment rates (all levels combined) that are significantly lower than those registered in countries with similar GDP per capita. Also, the quality of education, particularly higher education, in the region is cause for great concern.

78. To meet the challenges of globalization, the skills of labour in the region need to be upgraded and improved to meet the requirements of the technological and information revolution. Concrete measures should be taken in that direction, as well as to improve education and technical skills. The ratio of technical training compared to formal secondary training is very low in most member countries, in particular in the GCC countries and Lebanon.

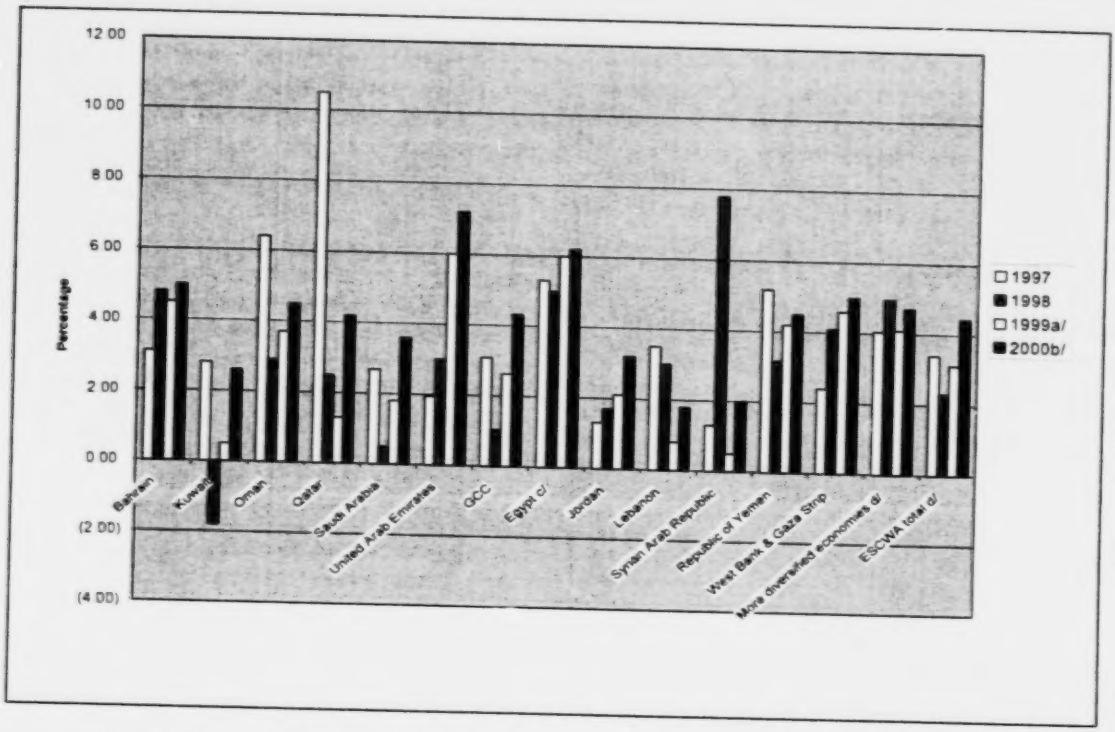
79. In the ESCWA region, non-governmental organizations, especially quality and gender-sensitive NGOs, are emerging as contributors to the process of democratization and as catalysts and agents of change in the participatory development model. Despite their diversity and the disparity in their objectives and instruments, most NGOs operate at the grass-roots level and are similar in orientation, inclusive in membership and pursue a participatory approach in their structure and management procedures. NGOs are participatory and gender-oriented, reaching out to meet the needs of all categories of citizens. In fact, in conflict-stricken Arab countries, women NGOs are very well organized and have replaced national Governments in providing services to citizens in times of conflict and need.

80. Globalization and democratization are among the serious challenges of the new millennium. The private sector and civil society (including NGOs) have emerged as central players, catalysts and agents of change, and have gained momentum in their efforts to raise awareness and to meet global challenges at the regional level. Their advocacy function carries special significance as we enter this new millennium.

81. The role of NGOs is of vital importance, and women in the ESCWA region can play multiple roles, in various ways: (a) as pressure groups (e.g., consumer groups); (b) as agents of change concerning fertility

control, education of girls, marriages, birth-spacing, family planning and other social issues; (c) as efficient service providers for developmental and welfare activities; and (d) as advocates for change with respect to human rights and legislation. The success of such a participatory development model depends on the way in which all parties, civil society, the State and the private sector interact towards a common goal. Gender mainstreaming in policies and programmes is imperative. The goal is to achieve balanced and truly sustainable development of the region, where women and men, youth and the elderly can contribute to the sustainability of participatory development.

Real GDP growth in the ESCWA region, 1997-2000



Source: Economic and Social Commission for Western Asia, based on national and international sources.

[a] Preliminary estimates.

[b] Projections.

[c] Fiscal year for Egypt starts 1 July and ends 30 June; official figures for fiscal year 1997/98 indicate real GDP growth of 6 and 6.8 per cent respectively.

[d] Excluding Iraq owing to the unavailability of reliable data.